

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Phillip Carter, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Lawrence County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Lawrence County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAWRENCE COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the Lawrence County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$27,982 from the prior year, resulting in excess fees of \$34,277 as of December 31, 2003. Revenues decreased by \$21,214 from the prior year and expenditures decreased by \$46,584.

Report Comments:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$973,644 To Protect Deposits
- The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year
- The Sheriff Lacks Adequate Segregation Of Duties

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The Honorable Phillip Carter, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Lawrence County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Phillip Carter, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$973,644 To Protect Deposits
- The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year
- The Sheriff Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lawrence County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
February 3, 2005

LAWRENCE COUNTY
GARRETT ROBERTS, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Grants		\$	13,996
State Grant - Kentucky Law Enforcement Foundation Program Fund			11,147
State Fees For Services:			
Finance and Administration Cabinet			3,551
Circuit Court Clerk:			
Sheriff Security Service	\$	12,694	
Fines and Fees Collected		<u>1,170</u>	13,864
Fiscal Court			30,301
County Clerk - Delinquent Taxes			2,945
Commission On Taxes Collected			177,952
Fees Collected For Services:			
Auto Inspections	\$	10,098	
Accident and Police Reports		886	
Serving Papers		17,706	
Transports		1,644	
Carrying Concealed Deadly Weapon Permits		<u>2,415</u>	32,749
Other:			
Forfeitures and Seizures	\$	3,710	
Miscellaneous		<u>2,672</u>	6,382
Interest Earned			129
Borrowed Money:			
State Advancement			<u>42,000</u>
Total Revenues		\$	<u>335,016</u>

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	117,737	
KLEFPF Salaries		10,485	
Overtime		<u>5,756</u>	\$ 133,978

Employee Benefits-

Employer's Share Social Security			14,984
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Contracted Services-

Advertising	\$	427	
Vehicle Maintenance and Repairs		<u>383</u>	810

Materials and Supplies-

Office Materials and Supplies	\$	6,797	
Uniforms		<u>5,591</u>	12,388

Auto Expense-

Gasoline	\$	14,170	
Maintenance and Repairs		<u>1,839</u>	16,009

Other Charges-

Advertising Costs Paid to County		5,825	
Bond		1,503	
Carrying Concealed Deadly Weapon Permits		1,610	
Dues	\$	435	
Photos		59	
Postage		254	
Service Charges		114	
Transportation Expenses		30	
Miscellaneous		<u>490</u>	10,320

Capital Outlay-

Office Equipment	\$	1,358	
Vehicles		<u>7,433</u>	\$ 8,791

Debt Service:

State Advancement			<u>42,000</u>
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Total Expenditures			<u>\$ 239,280</u>
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The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Net Revenues		\$	95,736
Less:			
Statutory Maximum	\$	59,199	
Training Incentive Benefit		<u>759</u>	<u>59,958</u>
Excess Fees Due County for 2003		\$	35,778
Payments to Fiscal Court:			
January 12, 2004	\$	13,647	
March 15, 2004		<u>20,630</u>	<u>34,277</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$</u>	<u>1,501</u>

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 12, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$973,644 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 12, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,300,000
Uncollateralized and uninsured	<u>973,644</u>
Total	<u><u>\$ 2,373,644</u></u>

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COMMENTS AND RECOMMENDATIONS

LAWRENCE COUNTY
GARRETT ROBERTS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$973,644 To Protect Deposits

On November 12, 2003, \$973,644 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: We have talked to the bank and that has been changed.

The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year

KRS 424.220(6) requires that "The sheriff shall, within sixty (60) days after the close of the sheriff's fiscal year (i.e. the calendar year), cause the financial statement to be published in full in a newspaper." The Sheriff published his financial statement on April 12, 2004. We recommend that the Sheriff comply with this statute.

Sheriff's Response: Ok.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursement ledgers.

LAWRENCE COUNTY
GARRETT ROBERTS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: I do check the books and balance the checkbooks.

Auditor's Reply: The Sheriff needs to document his work by initialing the documents that he reviews.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Phillip Carter, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lawrence County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated February 3, 2005. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$973,644 To Protect Deposits
- The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lawrence County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Lacks Adequate Segregation of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
February 3, 2005

